



FY 2022 - FY 2026 Capital Budget Submission Instructions Manual

**State of Rhode Island
Office of Management and Budget
Budget Office
August 2020**

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Introduction to Capital Budgeting

Defining Capital Asset, Capital Project, Asset Protection, and General Maintenance:

A **CAPITAL ASSET** is generally defined as a new or rehabilitated physical asset that is nonrecurring (i.e., purchased once), has a useful life of more than ten years and considered a significant purchase. It is intended to generate value over a long period of time, for example: a building; major computer equipment, machinery, or vehicles.

A **CAPITAL PROJECT** is the acquisition of, or option to buy, land and/or rights in land, whether by purchase or eminent domain proceedings, regardless of cost. A capital project can also be the construction of any new physical facility, structure, building, and public improvement or public purpose project, or addition or major renovation to an existing structure with a life expectancy of 10 years or longer, whose estimated cost including land, planning, design and construction, furnishings, and equipment exceeds \$100,000. Capital projects include funding for feasibility studies that estimate preliminary planning costs for architectural and engineering studies to help ensure that projects are well thought out and have reasonable and accurate cost estimates. Capital project funding requests are included in an agency's capital budget submission.

An **INFORMATION TECHNOLOGY PROJECT** is any project meeting any of one these criteria's: expected to utilize one hundred (100) or more hours of IT effort, have a citizens facing application, may have potential security risk or sensitive data, requires purchase of IT infrastructure or hardware and is requesting Information Technology Investment Funds (ITIF) funding. Please refer to page #7 for additional details regarding requesting capital resources for Information Technology Projects.

ASSET PROTECTION involves major renovations or improvements to existing facilities that will extend the useful life and/or add value to the asset by at least ten years; generally, at a total cost in excess of \$50,000. Individual projects with costs under \$50,000 cannot be combined to be considered an asset protection project unless they are part of the overall scope of work that can be put out to bid as one comprehensive project. Examples of asset protection projects include: renovation or replacement of heating, ventilation and air conditioning (HVAC) systems, wiring system upgrades, correction of fire code or handicapped accessibility issues, and other regulatory deficiencies. Asset protection funding requests are included in an agency's capital budget submission.

GENERAL MAINTENANCE is the on-going upkeep of existing facilities and structures. Maintenance will extend the useful life of a structure but will not normally add any significant value. General maintenance typically has an annual cost of under \$50,000. Failure to provide general maintenance (i.e., deferred maintenance) will typically result in deterioration to the point where capital expenditures are necessary to restore a facility to useable condition. General maintenance funding is not included in an agency's capital budget request, but rather in its operating budget request.

Capital Budget vs. Capital Improvement Plan

The Capital Budget represents the first year of the five-year Capital Improvement Plan (CIP) and authorizes specific projects and appropriates, where applicable, specific funding for those projects for that fiscal year.

The CIP identifies specific capital projects to be funded during the planning period. It also indicates the fiscal year in which the project will be started or the property acquired, the amount expected to be expended on the project each fiscal year, and the proposed method of financing these expenditures.

- Projects and financing sources listed in the CIP for years other than the first year (“out years”) are subject to change in future capital improvement plans.
- General revenue, federal, restricted, and funding from the Rhode Island Capital Plan Fund require approval by the General Assembly prior to agency expenditures.
- Funding from general obligation bonds and certain other sources do not require appropriation by the General Assembly, but are included in capital budget requests.
- Once funding has been appropriated by the Legislature or earmarked for a particular project as part of the capital plan, funding must be used **for that project only**.
- Agencies do not have discretion to shift funding between projects or funding sources (i.e., Rhode Island Capital Plan Fund and Bond Funds) without prior approval from the Office of Management and Budget and, potentially, the Legislature.

Every state agency requesting or planning to expend funds, (regardless of the source) of capital funds over the five-year planning period is required by law to submit a capital budget request or plan. This includes projects funded solely with federal and/or restricted receipt funds. In addition, any agency with previously approved capital projects in the current Capital Improvement Plan, must submit a capital budget outlining the status of these ongoing projects, even if they are not requesting additional funding for these projects or funding for new projects.

As agencies develop their FY 2022 - FY 2026 capital improvement plan, please keep in mind that the State is required to replenish the FY 2020 withdrawal from the Rainy-Day Fund, significant revenue decrease is expected over the next five years. A significant portion of forecasted resources available for capital projects are committed to the completion of ongoing projects. Upon replenishing the Rainy-Day Fund, distribution of RI Capital Funds will be dedicated to projects included in the existing five-year capital improvement plan that generate economic stimulus. Resources are not available for new projects during the current capital planning period but may be considered in the FY 2026 request.

All projects must be included in your capital improvement plan request with adequate information to allow for meaningful consideration of the project by the Office of Management & Budget, the Governor, and the Legislature. Project requests must include a full description of project rationale,

costs, future funding requirements, project schedule, associated operating budget impacts, and detailed explanation of how the capital request will assist the agency in meeting its strategic goals.

Questions as to the eligibility of projects for inclusion in the CIP should be directed to the OMB Capital Budget Chief Financial Officer, Bernard Lane @ 222-8151.

Capital Budgeting Goals

The State of Rhode Island has established several capital budgeting goals to guide the development of Capital Improvement Plans. These goals are:

- Ensure that the state’s annual capital budget and five-year capital improvement program is affordable and finances only necessary capital projects;
- Enable informed capital investment decisions according to a fair, open and objective process;
- Emphasize the requirement for long-term and strategic planning and encourage the use of master planning for state properties;
- Enhance the linkage between the capital and operating budgets;
- Institute the practice of budgeting that will result in planned biennial referenda consistent with the capital budgeting process;
- Increase accountability by publishing a document that will identify the individual projects to be funded during the capital-planning horizon;
- Limit debt use to long-term capital improvements and decrease reliance on debt in order to increase flexibility in difficult economic times;
- Prioritize capital projects that have a **high return on investment (ROI)**;
- Prioritize capital projects that can be **executed in a timely manner**; and,
- Prioritize capital projects that enhance the Department’s ability to meet its strategic objectives.

Rhode Island Capital Plan Fund

A key component of the capital budget process is the Rhode Island Capital Plan (RICAP) Fund. As a result of a constitutional change in 1992, the state created a **Budget Reserve and Cash Stabilization Fund**. Each year three percent of general revenues are deposited into this “Rainy Day Fund” until the fund reaches five percent of total resources. Once this “5%” level is reached, any additional revenues are deposited into the RICAP Fund.

The economic impact of the COVID-19 pandemic on the State Budget will require significant reductions in the Rhode Island Capital Plan Fund due to the requirement to replenish the Rainy-Day Fund and forecasted revenue reductions over the next five years. While the status of any potential federal stimulus remains uncertain, departments should prepare for significant reductions

in the RICAP fund in FY 2021 and FY 2022. Further instructions from the Office of Management and Budget will be forthcoming if federal stimulus becomes available.

Policy on Expenditure of Capital Funds

Capital projects should have a clearly defined scope of work that can be used to develop specifications that can be put out to bid. For small projects, the Division of Purchases' Master Price Agreements (MPAs) can be utilized in instances where the project is small and does not exceed the work order limit outlined in the MPA. When the capital project exceeds the MPA work order limit, the agency must prepare a requisition along with detailed specifications and forward to the Division of Purchases for bid.

Re-Appropriation of FY 2020 Funds and FY 2021 Revised Capital Budget

The Capital Budget submission should include **necessary** re-appropriation requests of FY 2020 funding in your FY 2021 Revised Budget Request. There will be a section added in BFM for a brief explanation of the purpose of the re-appropriation request. Based upon the unknown status of the RI Capital Plan Fund due to the requirement to repay the Rainy-Day Fund, the FY 2021 Revised Budget Request should reflect adjustments for projects included in the FY 2021 Enacted Budget, and not be utilized as an opportunity to request funding for new projects that were not included in the Enacted Budget. Please be advised that the requirement to replenish the Rainy-Day Fund absent additional federal stimulus will require significant reductions to the RI Capital Fund.

Budget Request FY 2022-FY 2026

Given the State's requirement to drawdown from the Rainy-Day Fund to close FY 2020 budget deficit, uncertainty of federal aid and anticipated revenue shortfall, every agency is expected to submit a level funded RI Capital Fund Budget for FY 2022-2025. Project funding shifts within projects in your agency will be considered, but approval is not certain. Due to the revenue shortfalls, the FY 2026 Request should be level-funded to your agency's FY 2025 Governor's Recommended funding in total.

Information Technology Project Funding

In FY 2018, DoIT made changes to the governance process of IT projects. The goal of the changes was to improve guidance and oversight throughout the lifecycle of a project from concept through execution. The initial step for IT projects is to come before the Project Review Committee (PRC). The PRC convenes biweekly to review projects, provide standards, and issue guidance.

Agencies should work with their assigned Agency IT Manager (AIM) on project submission to the PRC and in the capital budget. This process will be on going and a collaborative effort between the agencies and DoIT. **If you are requesting new Information Technology Investment Fund (ITIF) financing or need a funding source, please note the project account reference as “to be determined”, which will receive further analysis by OMB and DoIT.**

STATE INFORMATION TECHNOLOGY (IT) PROJECTS are currently funded in one of four ways:

- **Information Technology Investment Fund (ITIF)**: A separate fund used normally for department-specific or interagency projects intended to achieve programmatic improvements. The ITIF is primarily supported through the sale of state property and has limited resources.
- **Certificates of Participation (COPS)**: Funded by borrowing, COPS projects normally lead to increased revenues or operational savings.
- **Operating Budget – General Revenues**: Project development and/or maintenance funded through general revenues in the operating budget.
- **Operating Budget – Other**: Project development and/or maintenance through federal grants, restricted receipts, and/or other sources.

Capital Budget Submission

One of the fundamental principles for making sound decisions in the capital budget process is making intelligent decisions through consideration of capital requests on the basis of comprehensive project data and impact on related programs. The completion of capital budget forms serves as the basis for funding requests and allow agencies to advocate for their requests by presenting detailed project information.

The Office of Management and Budget is now using BFM in the preparation of the capital budget and information technology requests. Forms must be completed in the online BFM database for each capital project being undertaken or being considered by an agency, regardless of the source of funding. Project forms will also be required for all information technology project requests in excess of \$50,000. Each agency should be as detailed and specific as possible by including a full description of the project, the rationale for the project, its costs, future funding requirements, project schedules, and associated operating budget impacts. Information entered into these forms will be used to generate reports that will accompany an agency's capital budget submission. Providing quality documentation of the project's need and cost allows for more meaningful consideration by the Office of Management and Budget, the Governor, and the Legislature.

An agency's capital and IT budget request must be submitted by **October 1, 2020**. Three (3) bound copies of your request should be submitted to the Budget Office, and one copy each directly to the House and Senate Fiscal Staffs. The submission should be in the following format:

1. **Transmittal Letter**: A transmittal letter from the Director or Agency Head providing a brief overview of the capital budget submission and an indication of their priorities should be provided.
2. **Project Priority Order Report**: Lists all of the agency's projects in priority ranking

3. **Project Reports:** The reports listed below should be included for each capital project and IT request. Please submit project reports in order of the priority ranking for each project.
- **Summary Report:** Displays the project name, project ID, priority ranking, and total funding requested.
 - **Project Narrative & Justification Report:** Shows the project description, project justification, project status, and strategic criteria/or IT specific information.
 - **Agency Request vs. Plan Report:** Displays both the current financing plan for the project and the funding requested.
 - **Project Cost Report:** Displays the project costs for each project, with totals by funding source and fiscal year.
 - **Subproject Report:** OMB will distribute an Excel template for your Agency use, if you have multiple projects within a single capital project request, for example subprojects within Asset Protection projects. The listing of subprojects must be ranked in priority order. This template must be submitted within your BFM budget submission as an attachment at the header level and printed and included in the hard copy submission of your capital budget request.

The aforementioned reports are generated using information entered by the agency into BFM.

Timetable/Due Dates

Table 1 contains the Capital Budget Calendar for the upcoming cycle. Agency capital budget and IT inventory requests are due to the Budget Office by **October 1, 2020**. Copies of agency requests must also be sent by the submitting agencies directly to the House and Senate Fiscal Staffs. This calendar is a guideline and is subject to change.

Table 1: Capital Budget Calendar

| <u>Target Date</u> | <u>Process</u> |
|---------------------------|---|
| 8/27/2020 | Distribute FY 2022 - FY 2026 capital budget and IT project request instructions. BFM capital database made available online. |
| 8/27– 10/1/2020 | Capital budget and information technology requests are developed by agencies. |
| Suspended | Site visits to major capital projects by OMB, Legislative Staff & DCAMM Staff will be suspended until post-submission if allowable under the social distancing protocols. |
| 10/1/2020 | Agency submission of capital budget and information technology requests to the Budget Office and House and Senate Fiscal Staffs. |
| 10/1 – 11/30/2020 | Budget Office review. |